

Revised  
MEMORANDUM

TO: Bill Chenevich  
FROM: Dick Hagadorn  
DATE: December 10, 1996  
RE: Platinum Card

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As you may know, a renewed interest in a "Platinum-like" card has developed among Regional management and the Members.

Background

Historically, a new upscale card which would be positioned above Gold on the consumer card food chain has been reviewed almost annually for the last 3 years. We started looking at it in '92-'93 in the U.S. because we felt that Visa Gold would eventually lose its appeal and value as a premium-positioned product. It has. However, both the Members and management (including me) could find no sound business rationale for doing a new card.

Some of the reasons:

- The upper, upper market is very thin, the Amex Platinum card base might be 300,000 cards worldwide. The size of the market for a \$300 per year card might total only 1,000,000 people..
- The Members (U.S.) didn't want to re-slice a pie they felt they already had. That is, no new business or cardholders could be developed with another segmentation of the upscale market.
- The U.S. Members, after we did comprehensive market analysis, research and concept development did not find a compelling business case that would benefit the Membership.
- Member consensus in the U.S. on these issues has not been possible to achieve. The U.S. Product Group has been trying to get agreement on a product between Gold and the Platinum level for the last 18 months without success.
- While working in International Credit Product development we tried to elicit interest in a new card development in '94, '95, and early '96. No interest on the part of ICPA or Regional management existed. Even the introduction by Europay of a Platinum-like card called Signia, introduced

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GOVERNMENT  
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EXHIBIT  
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with great bally-hoo in 1995, fizzled. Only a handful of their Members issues it, and altogether they only got 30,000 cards. We haven't heard a thing since.

### What has changed?

U.S. Member's, Latin American/Caribbean Member's, and some European Member's attitudes have changed. There are essentially four reasons for this:

→ Mellon  
→ Hirschfeld

#### **1. Members doing it now anyway**

- MBNA and a few other U.S. Issuers began issuing a Visa Platinum Card. Nothing in the Op. Regs. prohibited it. There were no rules at all. Many U.S. Members expressed a concern that Visa needed to establish minimum Op. Reg. requirements for Visa Platinum issuance so that the *category* would not become contaminated by freelance product definitions, and so that Visa might preserve the value positioning of the category for a new product down the road. These minimum requirements go to the U.S. Board in February. (a \$7,500 line, a separate BIN, and card design rules)
- In Latin America and Europe, Members feel that they will be vulnerable to market share shifts to other Visa Members who issue a so-called Visa Platinum card. They also know the U.S. is putting enabling rules in, so the horse race is on!

#### **2. American Express is promoting it**

- Amex has been wooing Latin American and U.S. Members to their partnership proposition, in part, based on a charge-card/Platinum card "GAP" in Visa's product line. Regional management may feel immediate pressure to respond with a Visa offering.

#### **3. MasterCard will do it**

- The word from reliable sources is that MasterCard will soon announce a charge-card with a revolving credit "back-up" line of credit. Supposedly a handful of their Members have been working with them under a confidentiality agreement to design and test this approach. We tried the same thing in '92-'93 in the U.S. with a product called "Elite". It failed in the testing phase.

It had become clear that it would take one or more of the aforementioned events to create sufficient interest for us to do something.

### **Business and Technology Strategy Meeting**

Latin America/Caribbean Region (Lisa Brito, Jonathan Sanchez-Jaimes) and U.S. Region (Eric Kahn) are meeting with me on Tuesday, December 10, 1996. Lisa Brito asked for the meeting in preparation for a meeting with Ed Jensen on Thursday. She wants to review the Latin America/Caribbean Region product concept with me to make me aware, and make sure it's "compatible" with what Central is doing. As far as I know, Central is doing nothing. However, the U.S. is actively putting something together as well. In the meantime, I'm told Una is presenting an overview of the market sometime next week to a senior management group. Furthermore, Wes has said he thinks a Platinum-like service standard would require centralized control over key aspects of customer service, and that we might be able to justify it based on a needed investment in Corporate Card service infrastructure. So, it seems we have ample interest in moving forward.

I have a product concept that I believe can work, while avoiding some of the risks of a "me-too" Platinum product, and also minimize a repetition of the commodization of Visa Gold.

### **Key Principles of the Concept**

*No Pre Set Spending Limit*

1. Create a "new" category of payment card
  - avoid a "Gold Plus" kind of market perception
  - use Visa brand power and leverage to claim a new genre of product features (even if it's close to Amex Green/Gold)
2. Make it a charge card
  - this helps remove it from Gold category and reinforces notion of new from Visa
  - it will require a reliance on three things for profitability
    - a. Interchange Income: Visa must set the IRF on an international basis for this card. This will be key to the Member business case and drive Member participation. We should set it below Amex/Diners merchant fee structure, but above classic/Gold fee structure. This will justify it to merchants (cheaper than Amex) and be attractive enough to Issuers who want to appeal to their convenience users (and Amex cardholders) to switch over.

- b. Annual Fees: The annual fees are key to the product for these reasons:
1. value-price positioning in market
  2. Member payment to Visa for enhancements will likely be an annual card fee.
  3. helps define "newness" and "difference" of the product to the target segment
- c. High average spend: Moving convenience users to new platform will help, but the main idea here is to make it a more valuable, prestigious payment card than now exists in the mainstream classic or Gold category.

3. A new class of license

This product will require a special license to issue. A large portion of its funding would come from assessments and fees from Issuing Members. This "new" category of payment card will require:

- special, more costly enhancements: both core and à la carte
- heavy, product specific advertising to establish the product/category
- specialized authorization and customer service systems
- focused management and Member governance

By requiring a special license, we can move more quickly, with less debate from non-Issuers. This special license is also a way of solving other problems. I'll elaborate later.

I'd like to sit down and share more as soon as you have an opportunity. We should agree on how this concept can be further developed in the new organization and try and define more specific next steps.

cc:  
Anne Kortlander

Do we think  
this can be presented  
as a "new" product to CH ?  
They won't see as me-too?



Add chip for special merchant  
relationships

Visa "Passport"

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